

TOWN OF QUINTANA, TEXAS
ANNUAL FINANCIAL REPORT
For the Years Ended September 30, 2015 and 2016

Gratzer & Company
Certified Public Accountants

TOWN OF QUINTANA, TEXAS

ANNUAL FINANCIAL REPORT

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GRATZER & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To The Mayor and Council
Town of Quintana, Texas

We have audited the accompanying balance sheets - cash basis, of the Town of Quintana, Texas (Town) as of September 30, 2015 and 2016 and the statements of revenue, expenditures and changes in fund balance - cash basis, for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Auditor Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis balance sheets of the Town of Quintana, Texas, and the cash basis revenue and expenditures and changes in fund balance for the years then ended, on the basis of accounting described in Note 1.

Basis of Accounting

We draw your attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Gratzer & Company

Gratzer & Company
March 13, 2017

TOWN OF QUINTANA, TEXAS

BALANCE SHEETS - CASH BASIS

September 30, 2015 and 2016

	<u>2015</u>	<u>2016</u>
<u>Assets</u>		
Cash and Equivalents:		
Bank depository accounts -		
Checking accounts	\$ 2,179,713	\$ 2,178,470
Money market accounts	170,293	189,452
Prepaid bank card	3	-
Temporary investments -		
Governmental investment pool	3,002,338	3,011,006
Total Assets	<u>\$ 5,352,347</u>	<u>\$ 5,378,928</u>
 <u>Liabilities and Fund Balances</u>		
Liabilities Arising From Cash Transactions:		
Water customer deposits	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>
Fund Balances:		
Restricted for capital improvements	988,225	608,850
Unrestricted, Assigned for -		
Creed Day Event	1,000	-
Unrestricted, unassigned	4,363,122	4,770,078
Total Fund Balances	<u>5,352,347</u>	<u>5,378,928</u>
Total Liabilities and Fund Balances	<u>\$ 5,352,347</u>	<u>\$ 5,378,928</u>

See accountants' report and notes to financial statements.

TOWN OF QUINTANA, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - CASH BASIS (WITH BUDGET COMPARISON) For The Year Ended September 30, 2015

	Original & Final Budget	2015 Actual	Variance Favorable (Unfavorable)
Revenues and Other Sources:			
Taxes -			
Property	\$ 2,200	\$ 1,674	\$ (526)
Franchise	100,000	102,050	2,050
Sales	6,000	9,470	3,470
Industrial district payments	1,250,000	1,264,245	14,245
Water services	12,000	30,366	18,366
Intergovernmental	-	5,635	5,635
Interest earned	2,000	1,718	(282)
Other - FLNG development rights	-	1,000,000	1,000,000
Other miscellaneous	1,750	14,844	13,094
Total Revenue and Other Sources	1,373,950	2,430,002	1,056,052
Expenditures:			
Administration -			
Personnel related -			
Payroll	108,000	107,327	673
Payroll taxes	10,000	7,672	2,328
Retirement	3,000	1,255	1,745
Health insurance	9,000	12,903	(3,903)
Contract labor	-	780	(780)
Advertising	5,000	1,133	3,867
Auditing and bookkeeping	30,000	16,608	13,392
Mayor and council	12,500	3,461	9,039
Office supplies	7,000	3,945	3,055
Election	3,000	4,595	(1,595)
Fuel	6,000	-	6,000
Equipment repair	5,000	6,899	(1,899)
Internet	750	3,982	(3,232)
Liability and general insurance	20,000	7,271	12,729
Travel and education	12,000	5,640	6,360
Capital outlay	45,000	21,728	23,272
Other various accounts	20,275	4,676	15,599
Total Administration	296,525	209,875	86,650
Legal & Engineering			
Attorney	45,000	17,876	27,124
Engineering	85,000	50,720	34,280
Total Legal and Engineering	130,000	68,596	61,404
Parks -			
Xeriscape	1,500	-	1,500
Pavillion	2,000	-	2,000
Bird sanctuary	4,000	1,364	2,636
Park maintenance	3,500	-	3,500
Other parks	3,000	-	3,000
Total Parks	14,000	1,364	12,636

	Original & Final Budget	2015 Actual	Variance Favorable (Unfavorable)
Projects -			
Beach clean-up	3,500	1,394	2,106
Beach improvements	7,500	1,250	6,250
Creed day	6,000	6,657	(657)
Other projects	500	-	500
Total Projects	17,500	9,301	8,199
Public Service -			
Public safety	40,000	37,500	2,500
Garbage pick-up	27,153	18,257	8,896
Portable toilets	3,500	4,603	(1,103)
Street lights	10,000	2,336	7,664
Total Public Service	80,653	62,696	17,957
Roads -			
Repair	50,000	606	49,394
Signs	3,000	224	2,776
Landscaping	50,000	-	50,000
Capital outlay	75,000	94,701	(19,701)
Total Roads	178,000	95,531	82,469
Town Hall -			
Electric	5,500	3,027	2,473
Property insurance	15,000	16,025	(1,025)
Telephone	4,500	2,193	2,307
Maintenance	5,000	11,540	(6,540)
Repairs	25,000	175	24,825
Landscaping	-	32,400	(32,400)
Supplies	8,000	5,647	2,353
Capital outlay	15,000	1,875	13,125
Total Town Hall	78,000	72,882	5,118
Water System -			
Lab fees	4,000	1,258	2,742
Electric	10,000	10,636	(636)
Chlorine	8,000	7,403	597
Supplies	10,000	469	9,531
Repairs and maintenance	45,000	38,990	6,010
Miscellaneous	5,500	857	4,643
Capital Outlay	270,000	26,872	243,128
Total Water System	352,500	86,485	266,015
Total Expenditures	1,147,178	606,730	540,448
Net Change, Revenues Over Expenditures	226,772	1,823,272	1,596,500
Fund Balance:			
Beginning of year	3,529,075	3,529,075	-
End of year	\$ 3,755,847	\$ 5,352,347	\$ 1,596,500

See accountants' report and notes to financial statements.

TOWN OF QUINTANA, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - CASH BASIS (WITH BUDGET COMPARISON)

For The Year Ended September 30, 2016

	Original & Final Budget	2016 Actual	Variance Favorable (Unfavorable)
Revenues and Other Sources:			
Taxes -			
Property	\$ 2,200	\$ 1,490	\$ (710)
Franchise	100,000	116,832	16,832
Sales	6,000	24,417	18,417
Industrial district payments	1,265,000	1,269,950	4,950
Water services	12,000	28,458	16,458
Interest earned	2,000	8,850	6,850
Other miscellaneous	1,750	2,804	1,054
Total Revenues and Other Sources	1,388,950	1,452,801	63,851
Expenditures:			
Administration -			
Personnel related -			
Payroll	140,000	143,381	(3,381)
Payroll taxes	10,000	10,958	(958)
Retirement	3,000	2,039	961
Health insurance	15,000	15,130	(130)
Contract Labor	-	4,490	(4,490)
Advertising	5,000	17	4,983
Auditing and bookkeeping	30,000	16,248	13,752
Mayor and council	12,500	10,520	1,980
Office supplies	7,000	2,305	4,695
Election	10,000	2,289	7,711
Fuel	6,000	1,513	4,487
Equipment repair	5,000	502	4,498
Internet	29,550	25,070	4,480
Liability and general insurance	20,000	13,247	6,753
Travel and education	12,000	3,332	8,668
Capital outlay	70,000	-	70,000
Other various accounts	31,275	11,996	19,279
Total Administration	406,325	263,037	143,288
Legal & Engineering -			
Attorney	75,000	29,476	45,524
Engineering	85,000	98,313	(13,313)
Total Legal & Engineering	160,000	127,789	32,211
Parks -			
Xeriscape	1,500	-	1,500
Pavillion	2,000	-	2,000
Bird sanctuary	12,000	1,262	10,738
Park maintenance	3,500	-	3,500
Park improvements - restricted	-	16,329	(16,329)
Parks - other	3,000	-	3,000
Total Parks	22,000	17,591	4,409

	Original & Final Budget	2016 Actual	Variance Favorable (Unfavorable)
Projects -			
Beach clean-up	4,000	950	3,050
Beach clean-up beautification	95,000	95,000	-
Beach improvements	7,500	810	6,690
Creed day	6,000	3,556	2,444
Total Projects	112,500	100,316	12,184
Public Service -			
Public safety	44,000	41,500	2,500
Garbage pick-up	27,153	19,511	7,642
Portable toilets	6,500	6,507	(7)
Street lights	10,000	3,384	6,616
Capital outlay	25,000	-	25,000
Total Public Service	112,653	70,902	41,751
Roads -			
Repair	50,000	4,087	45,913
Signs	3,000	4,834	(1,834)
Landscaping	25,000	-	25,000
Total Roads	78,000	8,921	69,079
Town Hall -			
Electric	5,500	2,620	2,880
Property insurance	15,000	12,952	2,048
Telephone	4,500	2,636	1,864
Maintenance	55,000	7,249	47,751
Repairs	-	1,857	(1,857)
Landscaping	-	18,429	(18,429)
Supplies	8,000	2,143	5,857
Beautification - restricted	20,000	21,738	(1,738)
Capital outlay	245,000	247,607	(2,607)
Total Town Hall	353,000	317,231	35,769
Water System -			
Lab fees	4,000	1,762	2,238
Electric	10,000	5,851	4,149
Chlorine	13,000	2,770	10,230
Supplies	10,000	-	10,000
Repairs & maintenance	45,000	60,280	(15,280)
Miscellaneous	5,500	4,163	1,337
Capital outlay	520,000	445,607	74,393
Total Water System	607,500	520,433	87,067
Total Expenditures	1,851,978	1,426,220	425,758
Net Change, Revenues Over (Under) Expenditures	(463,028)	26,581	489,609
Fund Balance:			
Beginning of year	5,352,347	5,352,347	-
End of year	\$ 4,889,319	\$ 5,378,928	\$ 489,609

See accountants' report and notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
For The Years Ended September 30, 2015 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

- A. Basis of Accounting - The Town's policy is to prepare its financial statements on the modified cash basis of accounting. This is a method different from either the accrual or modified accrual bases of accounting, which are required by generally accepted accounting principles. The cash basis of accounting recognizes revenues when cash is received, versus the accrual basis that records revenues when earned, regardless of the time of receipt. Expenditures under the cash basis are generally recognized when cash is disbursed, versus the accrual basis which would recognize expenditures when liabilities are incurred, regardless of the time of cash disbursement.

The Town's financial statements contain slight modification of the pure cash basis, in that liabilities that arise from cash transactions are included in the financial reports. These liabilities include items associated with payroll transactions that have resulted in a cash disbursement. The withholdings of items such as payroll taxes in connection with a payroll result in a liability until the taxes are actually paid. Another liability arising from cash transactions is the collection of billing account security deposits from customers of the Town's water system. These cash collections do not reflect revenue, as such are payable back to the customer upon discontinuance of service. Only these current liabilities arising from cash transactions are included. These statements do not reflect other accrual basis accounts such as receivables, other liabilities, or any capital assets or long-term liabilities.

- B. Capital Assets - The Town does not have a controlling record of capital assets, and accordingly does not include either the cost or depreciation associated with such assets in the financial reports.
- C. Fund Balance - The reported fund balance represents the excess of cash over liabilities (net assets), as of the balance sheet date. Unrestricted, unassigned totals represent amounts available for future years. Assigned equity represents amounts which management has earmarked for certain purposes. These assignments are subject to change by management. The Town reports a restriction of fund balance representing an amount legally or contractually obligated for certain purposes. During fiscal year 2015, Freeport LNG provided Public Improvement Funding in the amount of \$1,000,000 - in exchange for certain development rights. These restricted funds can be used for improvements benefitting residents, or for the Town's infrastructure, buildings or other assets, without limitation.

NOTE 2 - INDUSTRIAL DISTRICT PAYMENTS & RISK CONCENTRATION

The Town is receiving payments from two entities that have substantial facilities within the Town's taxable jurisdiction. These entities have contractual agreements stipulating payments in lieu of property taxes. These combined payments for fiscal years 2015 and 2016 represent approximately 88% of the Town's total revenue, exclusive of the public improvement funding, noted above.

TOWN OF QUINTANA, TEXAS

NOTES TO FINANCIAL STATEMENTS

For The Years Ended September 30, 2015 and 2016

NOTE 3 - CASH AND INVESTMENTS \ SECURITY RISK

The Town's official bank depository is located within Brazoria County, Texas, and provides FDIC coverage to secure deposit balances, with total cash balances exceeding related FDIC coverage. The balance in excess of FDIC coverage was secured by a pledge of collateral (investment securities) with a market balance in excess of the related deposit balance. The pledged collateral is held by an independent third party.

The Town maintains a substantial portion of its cash equivalent assets in Texpool. This local government investment pool was organized in 1989 and provides investment services to over 2,000 communities throughout the State of Texas. The Texas State Comptroller of Public Accounts oversees the pool, with Federated Investors providing asset management and participant services. This pool was created with stated objectives of preservation and safety of principal, with liquidity and yield consistent with the Public Funds Investment Act. For more information, refer on-line at <http://texpool.com>.

NOTE 4 - OTHER DISCLOSURES

The following disclosure is not required for cash basis financial reporting, but is presented because of its significance to current financial reporting, and for the purpose of providing additional information to the user of these statements.

EMPLOYEE RETIREMENT PLAN

Plan Description - The Town provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the Town are within the options available in the governing state statutes of the TMRS. The TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153, or by calling 800.924.8677; in addition, the report is available on TMRS' website at www.TMRS.com.

Governments reporting under generally accepted accounting principles, began reporting net pension liabilities and related disclosures during fiscal 2015. The TMRS measurement date is December 31st of each year, and information provided does not match with the Town's fiscal year-end. As of December 2014, the value of the Town's Fiduciary Position (invested plan assets) exceeded the Projected Pension Liability in the amount of \$4,619, resulting in a Net Pension Asset. As of December 2015, the value of the Projected Pension Liability exceeded the Town's Fiduciary Position (invested plan assets) in the amount of \$6,399, resulting in a Net Pension Liability. The Net Pension Asset as of December 2014 and the Net Pension Liability as of December 2015 are not included in these cash basis statements.

TOWN OF QUINTANA, TEXAS
